

**SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION, AND  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013**

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
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SPENCER MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND OFFICIALS  
JUNE 30, 2014

BOARD OF TRUSTEES

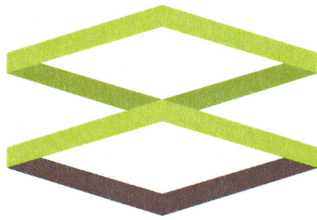
TITLE

TERM EXPIRES

John Rahn	Chairman	December 31, 2015
John Cotton	Vice Chairman	December 31, 2015
Neal Conover	Secretary/Treasurer	December 31, 2017
Gary VanHofwegen, DDS	Trustee	December 31, 2017
Kris Van Berkum	Trustee	December 31, 2015

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Stephen Deutsch	Vice President of Operations
Mark Gaworski	Vice President of Finance and Chief Financial Officer
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development



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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Spencer Municipal Hospital and  
Board of Managers of  
Abben Cancer Center, LLC  
Spencer, IA 51301

**Report on Financial Statements**

We have audited the accompanying financial statements of Spencer Municipal Hospital (Hospital), an enterprise fund of the City of Spencer, Iowa, and Abben Cancer Center, LLC (Abben), a discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and we also audited the Hospital in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and Abben Cancer Center, LLC, a discretely presented component unit, as of June 30, 2014 and 2013, and the results of their operations, changes in net position and members' equity, respectively, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information - Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information - Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other information included in Schedule 7, which is marked "unaudited", is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Wintner, Stave & Co., LLP*

October 6, 2014  
Spencer, Iowa

# SPENCER MUNICIPAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

## Introduction

Spencer Municipal Hospital (the Hospital) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal year ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the statement of financial position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position. In addition, the basic financial statements of Abben Cancer Center, LLC, a component unit, are separately presented.

## Financial Statements

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding or property tax revenues from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## Financial Highlights for 2014

- Total assets increased by \$5,103,035 to \$109,484,673.
- Net position increased by \$6,211,010.
- Total noncurrent cash and investments increased by \$269,270.
- Total liabilities decreased by \$1,107,975.
- The operating margin for fiscal year 2014 was 5.81%.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Financial Highlights for 2013**

- Total assets increased by \$4,322,369 to \$104,381,638.
- Net position increased by \$5,591,427.
- Total noncurrent cash and investments increased by \$472,858.
- Total liabilities decreased by \$1,269,058.
- The operating margin for fiscal year 2013 was 5.24%.

**Financial Analysis of the Hospital**

The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

**Assets, Liabilities, and Net Position**

A summary of the Hospital's statements of net position at June 30, 2014, 2013, and 2012 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Statements of Net Position	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets .....	\$ 59,352	\$ 55,835	\$ 53,910
Capital assets .....	<u>50,133</u>	<u>48,547</u>	<u>46,149</u>
<b>TOTAL ASSETS</b>	<b><u>\$109,485</u></b>	<b><u>\$104,382</u></b>	<b><u>\$100,059</u></b>
Current liabilities .....	\$ 8,152	\$ 7,827	\$ 7,980
Long-term liabilities .....	<u>6,066</u>	<u>7,499</u>	<u>8,614</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 14,218</u></b>	<b><u>\$ 15,326</u></b>	<b><u>\$ 16,594</u></b>
Invested in capital assets - net of related debt .....	\$ 42,924	\$ 39,990	\$ 36,002
Restricted .....	2,172	2,150	1,938
Unrestricted .....	<u>50,171</u>	<u>46,916</u>	<u>45,525</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 95,267</u></b>	<b><u>\$ 89,056</u></b>	<b><u>\$ 83,465</u></b>

Net position increased by \$6,211,010 to \$95,267,093 in fiscal year 2014. Net position increased by \$5,591,427 to \$89,056,083 in fiscal year 2013. The change in net position results primarily from operating income.



SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Revenues, Expenses, and Changes in Net Position**

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net position for each of the fiscal years ended June 30, 2014, 2013, and 2012.

Table 2 (in thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues .....	\$ 65,755	\$ 65,611	\$ 67,720
Operating expenses .....	<u>61,933</u>	<u>62,179</u>	<u>60,891</u>
Operating income .....	3,822	3,432	6,829
Nonoperating income (expense) .....	<u>2,286</u>	<u>1,482</u>	<u>(265)</u>
Excess of revenues over expenses before contributions .....	6,108	4,914	6,564
Contributions .....	<u>103</u>	<u>677</u>	<u>48</u>
Change in net position .....	6,211	5,591	6,612
Total net position - beginning of year .....	<u>89,056</u>	<u>83,465</u>	<u>76,853</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<b><u>\$ 95,267</u></b>	<b><u>\$ 89,056</u></b>	<b><u>\$ 83,465</u></b>

**Operating and Financial Performance**

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net position as of June 30, 2014, 2013, and 2012.

Volume - Volume statistics are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Inpatient discharges .....	2,506	2,863	3,159
Inpatient days .....	9,484	10,879	12,729
Outpatient visits .....	116,756	114,657	119,443

Net Patient Service Revenue - Our net patient service revenues increased \$272,716 in 2014 and decreased \$1,635,042 in 2013. These changes are the result of the following changes in gross revenues and contractual and bad debt adjustments. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total patient service revenues .....	\$154,840,311	\$143,668,788	\$139,388,404
Contractual and bad debt adjustments .....	(92,500,103)	(81,601,296)	(75,685,870)
Adjustments as percent of revenues .....	<u>59.7%</u>	<u>56.8%</u>	<u>54.3%</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2014, 2013, and 2012.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare .....	48.47%	47.77%	48.58%
Wellmark/Blue Cross/Blue Shield .....	28.23	27.80	25.96
Managed Care/Commercial .....	8.78	9.68	9.86
Medicaid .....	8.19	7.81	8.11
All other .....	<u>6.33</u>	<u>6.94</u>	<u>7.49</u>
 TOTAL	 <u>100.00%</u>	 <u>100.00%</u>	 <u>100.00%</u>

Salaries - Salaries decreased by \$802,544 in 2014 and increased by \$366,357 in 2013. For the fiscal year ended June 30, 2014, the Hospital employed 423 full-time equivalent employees, compared to 454 in 2013 and 457 in 2012. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$192,701 in 2014 and increased by \$41,791 in 2013. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

### Capital Assets

At June 30, 2014, the Hospital had \$103,653,510 invested in capital assets as shown in Table 4. The \$7,743,427 net decrease in capital assets is primarily as a result of a house wide capital asset review and the subsequent updating for scrapped or disposed equipment and furnishings. There were also increases in capital assets due to some of the major purchases for the fiscal year including the remodeling of the intensive care unit and the mental health unit, infrastructure chiller improvements, remodeling of a radiology treatment room and a medical office building, the purchase of rental real estate adjacent to the hospital campus, new beds and mattresses for the medical and surgical unit, instrument washers for the surgery department, new ambulance, and an upgrade to the MRI in the diagnostic imaging department.

At June 30, 2013, the Hospital had \$111,396,937 invested in capital assets as shown in Table 4. During the year the Hospital had approximately \$7,800,000 in capital expenditures. Some of the major purchases for the fiscal year included the purchase of a CT simulator for radiation oncology and related remodeling, infrastructure chiller improvements, intensive care unit remodeling (still in process as of June 30), C-Arm for diagnostic imaging, new ambulance, operating room instrumentation and tables, fetal surveillance documentation software for obstetrics, and two parking lot paving projects.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table summarizes the Hospital's capital assets as of June 30, 2014, 2013, and 2012.

Table 4

Capital Assets (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land .....	\$ 2,461	\$ 2,430	\$ 2,430
Land improvements .....	1,812	1,846	1,541
Buildings .....	52,763	48,434	48,050
Fixed equipment .....	10,689	10,152	8,611
Major movable equipment .....	35,795	45,276	42,904
Construction in progress .....	<u>134</u>	<u>3,259</u>	<u>460</u>
Subtotal	103,654	111,397	103,996
Less accumulated depreciation .....	<u>53,521</u>	<u>62,850</u>	<u>57,847</u>
 CAPITAL ASSETS - NET	 <u>\$ 50,133</u>	 <u>\$ 48,547</u>	 <u>\$ 46,149</u>

### Long-Term Debt

The Hospital had long term-debt balances of \$7,209,085 and \$8,614,206 as of June 30, 2014 and 2013, respectively. Further details are provided in the financial statement notes.

### Performance Compared to Budget

The following table compares fiscal year 2014 actual to budget information for the statement of revenues, expenses, and changes in net position.

Table 5

Budget vs. Actual (in thousands)

	<u>FY 2014</u> <u>Budget</u>	<u>FY 2014</u> <u>Actual</u>	Dollar Variance Favorable (Unfavorable)
Operating revenues .....	\$ 72,175	\$ 65,755	\$ (6,420)
Operating expenditures .....	<u>68,234</u>	<u>61,933</u>	<u>6,301</u>
Operating income	3,941	3,822	(119)
Other nonoperating changes in net position.....	<u>577</u>	<u>2,389</u>	<u>1,812</u>
 Excess of revenues over expenses	 <u>\$ 4,518</u>	 <u>\$ 6,211</u>	 <u>\$ 1,693</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when setting the fiscal year budgets. Of primary importance in setting the 2015 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Healthcare reform legislation
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing drug costs
- Drug shortages
- Increasing number of uninsured patients
- Increasing insurance deductibles
- Investment market

**Community Contributions**

During fiscal years 2014 and 2013, the Hospital contributed much to the communities it serves. Charity care and uncompensated care totaled \$3,207,305 and \$3,356,344, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

**Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Abben Cancer Center, LLC, has prepared separate financial statements. If you have questions about the Hospital's report, Abben's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2) .....	\$ 26,266,803	\$ 26,812,593
Patient receivables - net of allowances for doubtful accounts and contractual adjustments of \$12,803,200 and \$10,883,100, respectively (Note 4) .....	8,127,938	7,169,586
Other receivables (Note 10) .....	1,445,820	1,550,090
Investments (Note 2) .....	11,382,556	8,700,158
Inventories .....	2,961,944	2,778,009
Prepaid expenses .....	<u>1,095,419</u>	<u>936,024</u>
<b>TOTAL CURRENT ASSETS</b>	<u>51,280,480</u>	<u>47,946,460</u>
<b>NONCURRENT CASH AND INVESTMENTS (Note 2):</b>		
Internally designated for capital improvements .....	5,298,499	5,051,519
Principal of permanent endowments .....	1,971,975	1,950,477
Restricted by donors for operations .....	<u>200,318</u>	<u>199,526</u>
<b>TOTAL NONCURRENT CASH AND INVESTMENTS</b>	<u>7,470,792</u>	<u>7,201,522</u>
<b>CAPITAL ASSETS (Notes 5, 11, and 12):</b>		
Land .....	2,460,747	2,430,601
Construction in progress .....	134,274	3,258,989
Depreciable property, plant, and equipment .....	<u>101,058,489</u>	<u>105,707,347</u>
<b>TOTAL CAPITAL ASSETS</b>	103,653,510	111,396,937
Less accumulated depreciation .....	<u>53,520,309</u>	<u>62,849,887</u>
<b>CAPITAL ASSETS - NET</b>	<u>50,133,201</u>	<u>48,547,050</u>
<b>OTHER ASSETS:</b>		
Investment in Abben (Notes 10 and 11) .....	633,809	640,337
Investment (share of deficiency) in home medical equipment co. ....	(33,609)	(11,217)
Deferred finance costs .....	<u>-</u>	<u>57,486</u>
<b>TOTAL OTHER ASSETS</b>	<u>600,200</u>	<u>686,606</u>
 <b>TOTAL ASSETS</b>	 <u><b>\$109,484,673</b></u>	 <u><b>\$104,381,638</b></u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF NET POSITION - Continued  
JUNE 30, 2014 AND 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt (Note 6) .....	\$ 1,472,821	\$ 1,405,121
Accounts payable:		
Trade .....	1,887,275	1,826,107
Construction and equipment .....	166,000	330,000
Accrued salaries and wages .....	3,337,331	2,728,678
Payroll taxes payable .....	215,040	181,380
Estimated third-party payor settlements (Note 3) .....	501,217	690,405
Other current liabilities (Note 9) .....	<u>572,463</u>	<u>664,997</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>8,152,147</u>	<u>7,826,688</u>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt - net of current portion (Note 6) .....	5,736,264	7,209,085
Other post-employment benefits (Note 8) .....	<u>329,169</u>	<u>289,782</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>6,065,433</u>	<u>7,498,867</u>
<b>TOTAL LIABILITIES</b>	<u>14,217,580</u>	<u>15,325,555</u>
<b>NET POSITION:</b>		
Net investment in capital assets .....	42,924,116	39,990,330
Restricted by donor - nonexpendable .....	1,971,975	1,950,477
Restricted by donor - expendable .....	200,318	199,526
Unrestricted .....	<u>50,170,684</u>	<u>46,915,750</u>
<b>TOTAL NET POSITION</b>	<u>95,267,093</u>	<u>89,056,083</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$109,484,673</u>	<u>\$104,381,638</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Net patient service revenue (Note 3) .....	\$ 62,340,208	\$ 62,067,492
Abben Cancer Center net earnings .....	543,472	693,100
Clinic revenue .....	532,317	618,541
Other operating revenues .....	<u>2,339,227</u>	<u>2,231,387</u>
TOTAL OPERATING REVENUES	<u>65,755,224</u>	<u>65,610,520</u>
OPERATING EXPENSES:		
Salaries .....	21,176,833	21,979,377
Employee benefits .....	7,989,428	7,796,727
Professional services .....	6,966,996	6,286,600
Prescription drugs .....	5,489,845	4,711,584
Supplies and other .....	14,003,843	15,212,356
Clinic expenses .....	873,876	923,633
Depreciation .....	<u>5,432,789</u>	<u>5,268,349</u>
TOTAL OPERATING EXPENSES	<u>61,933,610</u>	<u>62,178,626</u>
OPERATING INCOME	<u>3,821,614</u>	<u>3,431,894</u>
NONOPERATING INCOME (EXPENSES):		
Interest income .....	246,784	248,366
Investment income - net of related expenses .....	2,544,604	1,744,811
Interest expense .....	(428,430)	(449,179)
Loss on disposal of capital assets .....	(73,121)	(51,065)
Scholarships granted .....	<u>(4,000)</u>	<u>(11,000)</u>
NET NONOPERATING INCOME (EXPENSES)	<u>2,285,837</u>	<u>1,481,933</u>
INCOME BEFORE CONTRIBUTIONS	6,107,451	4,913,827
CAPITAL CONTRIBUTIONS .....	<u>103,559</u>	<u>677,600</u>
CHANGE IN NET POSITION	6,211,010	5,591,427
NET POSITION - BEGINNING OF YEAR .....	<u>89,056,083</u>	<u>83,464,656</u>
NET POSITION - END OF YEAR	<u>\$ 95,267,093</u>	<u>\$ 89,056,083</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors .....	\$ 61,724,985	\$ 62,808,046
Cash paid to suppliers for goods and services .....	(27,703,812)	(26,720,787)
Cash paid to employees for services .....	(28,484,561)	(29,917,661)
Other operating revenues .....	2,465,889	2,205,573
Other amounts paid .....	<u>(4,000)</u>	<u>(11,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,998,501</u>	<u>8,364,171</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets .....	(7,256,061)	(7,621,995)
Proceeds from sale of capital assets .....		96,348
Principal payments on long-term debt .....	(1,405,121)	(1,602,119)
Interest paid on long-term debt .....	(376,388)	(443,690)
Capital grants and contributions received .....	<u>103,559</u>	<u>677,600</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,934,011)</u>	<u>(8,893,856)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments .....	(10,833,302)	(7,954,228)
Proceeds from sale and maturities of investments .....	10,304,862	7,326,311
Income on investments .....	613,293	596,625
Distributions received from Abben .....	550,000	850,000
Change in other assets .....	<u>3,727</u>	<u>(4,389)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>638,580</u>	<u>814,319</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(296,930)	284,634
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,287,802</u>	<u>32,003,168</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 31,990,872</u>	<u>\$ 32,287,802</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents per statements of financial position (Note 2):		
Current assets .....	\$ 26,266,803	\$ 26,812,593
Included in noncurrent cash and investments .....	<u>5,724,069</u>	<u>5,475,209</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 31,990,872</u>	<u>\$ 32,287,802</u>



SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income .....	\$ 3,821,614	\$ 3,431,894
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation .....	5,432,789	5,268,349
Equity in earnings of Abben .....	(543,472)	(693,100)
Equity in losses of home medical equipment co. ....	22,392	32,397
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded .....	(4,000)	(11,000)
(Increase) decrease in:		
Patient receivables .....	(958,352)	243,104
Other receivables .....	104,270	11,843
Inventories .....	(183,935)	74,500
Prepaid expenses .....	(159,395)	(140,898)
Increase (decrease) in:		
Accounts payable .....	61,168	320,834
Accrued salaries and wages .....	608,653	(152,995)
Payroll taxes payable .....	33,660	11,438
Estimated third-party payor settlements .....	(189,188)	(121,091)
Other liabilities .....	<u>(47,703)</u>	<u>88,896</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,998,501</u>	<u>\$ 8,364,171</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:		
Capital asset purchases .....	\$ 7,165,504	\$ 7,813,995
Change in construction accounts payable .....	164,000	(192,000)
Net book value of equipment trade-ins .....	<u>(73,443)</u>	<u>-</u>
 Cash paid to purchase capital assets	<u>\$ 7,256,061</u>	<u>\$ 7,621,995</u>

ABBEN CANCER CENTER, LLC  
(A Component Unit of Spencer Municipal Hospital)  
BALANCE SHEETS  
JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash .....	\$ 144,615	\$ 192,400
Patient receivables - net of allowance for doubtful accounts and contractual adjustments of \$550,200 and \$563,500, respectively (Note 4) .....	217,641	214,881
Prepaid expenses .....	<u>196,542</u>	<u>152,682</u>
 TOTAL ASSETS	 <u>\$ 558,798</u>	 <u>\$ 559,963</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES:		
Accounts payable .....	\$ 49,884	\$ 44,480
Accounts payable to Spencer Municipal Hospital (Note 10) .....	<u>131,571</u>	<u>131,612</u>
TOTAL CURRENT LIABILITIES	181,455	176,092
 MEMBER'S EQUITY .....	 <u>377,343</u>	 <u>383,871</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 558,798</u>	 <u>\$ 559,963</u>

ABBEN CANCER CENTER, LLC  
 (A Component Unit of Spencer Municipal Hospital)  
 STATEMENTS OF INCOME AND MEMBER'S EQUITY  
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NET PATIENT SERVICE REVENUE (Note 3) .....	<u>\$2,979,302</u>	<u>\$2,958,951</u>
OPERATING EXPENSES:		
Professional medical services .....	1,335,503	1,283,934
Medical supplies .....	12,429	10,589
Facility expenses .....	1,016,976	871,653
General and administrative .....	<u>81,017</u>	<u>111,264</u>
TOTAL OPERATING EXPENSES	<u>2,445,925</u>	<u>2,277,440</u>
OPERATING INCOME .....	<u>533,377</u>	<u>681,511</u>
NONOPERATING INCOME:		
Interest income .....	353	526
Contributions and other income .....	<u>9,742</u>	<u>11,063</u>
TOTAL NONOPERATING INCOME	<u>10,095</u>	<u>11,589</u>
NET INCOME	543,472	693,100
MEMBER'S EQUITY - BEGINNING OF YEAR .....	383,871	540,771
DISTRIBUTIONS .....	<u>(550,000)</u>	<u>(850,000)</u>
MEMBER'S EQUITY - END OF YEAR	<u>\$ 377,343</u>	<u>\$ 383,871</u>

ABBEN CANCER CENTER, LLC  
(A Component Unit of Spencer Municipal Hospital)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 543,472	\$ 693,100
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in:		
Patient receivables .....	(2,760)	(16,648)
Other current assets .....	(43,860)	154
Increase (decrease):		
Accounts payable .....	5,404	4,689
Accounts payable to Spencer Municipal Hospital .....	(41)	(2,185)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>502,215</u>	<u>679,110</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid .....	<u>(550,000)</u>	<u>(850,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(550,000)</u>	<u>(850,000)</u>
NET DECREASE IN CASH	(47,785)	(170,890)
CASH AT BEGINNING OF YEAR .....	<u>192,400</u>	<u>363,290</u>
CASH AT END OF YEAR	<u>\$ 144,615</u>	<u>\$ 192,400</u>

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Spencer Municipal Hospital (the Hospital) is a city public hospital organized under Chapter 392.6 of the Code of Iowa and is an enterprise fund of the City of Spencer, Iowa. The Hospital is governed by a five-member board of trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, two medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

**Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Government Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

Abben Cancer Center, LLC (Abben) is a legally separate wholly-owned limited liability company and is considered a discretely presented component unit of the Hospital. Abben was organized on June 20, 1996 and shall continue in existence until June 20, 2026 unless dissolved sooner in accordance with its operating agreement. Its financial statements are separately presented on pages 16 through 18. Abben is a medical clinic that operates a cancer treatment center on the Hospital's campus.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, it is not considered a component unit of the Hospital. HME sells home medical equipment from a retail location in Spencer.

**Basis of Presentation**

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position.

Net position is reported in the following categories/components:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted by donor - nonexpendable net position* consist of the principal portion of permanent endowments.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Basis of Presentation - Continued**

*Restricted by donor - expendable net position* consist of noncapital net position that must be used for a particular purpose as specified by the donors.

*Unrestricted net position* consists of net position not meeting the definition of the three preceding categories. Unrestricted net position often has constraints on resources imposed by management or the board of trustees which can be removed or modified.

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting where revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

Abben's financial statements and related disclosures are prepared in accordance with U.S. GAAP as prescribed by the Financial Accounting Standards Board accounting standards.

**Change in Accounting Standards**

GASB 65, *Items Previously Reported as Assets and Liabilities*, reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements; (1) Deferred outflows of resources, (2) Outflows of resources, (3) Deferred inflows of resources, and (4) Inflows of resources. The standards require that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Noncurrent Cash and Investments**

Noncurrent cash and investments include funds restricted by donors for capital improvements or specific operations of the Hospital; permanently endowed funds; and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

**Patient Receivables**

Patient receivables are shown at the amount expected to be collected. Patient receivables where a third-party payor is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts and the contractual adjustment by applying historical write off and contractual adjustment percentages to the outstanding balances as segregated by major third-party payor classifications.

**Inventory**

Inventory is valued at the lower of average cost or market using the first-in, first-out method and consists primarily of patient supplies, including pharmaceuticals and operating supplies.

**Capital Assets**

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years while the equipment lives range from three to twenty years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value.

**Investments**

Investments in common stocks, mutual funds, and real estate held in the permanently endowed funds are carried at fair value based on quoted market prices or third-party appraisals. Investments in real estate not in the endowed funds are carried at cost. Donated investments are reported at fair value at the date of receipt, which is then treated as cost.

The Hospital's investments in Abben and HME are accounted for by using the equity method, where the Hospital records its share of the earnings or losses. The investment in Abben was approximately \$256,000 greater than the underlying member's equity at June 30, 2014 and 2013. The difference is attributable to goodwill which is tested for impairment on an annual basis.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Deferred Finance Costs**

Deferred finance costs were stated at cost and amortized over the term of the revenue bonds using the straight-line method until the adoption of GASB 65, *Items Previously Reported as Assets and Liabilities* in 2014. As a result, the remaining unamortized costs of \$57,486 were amortized in 2014, rather than adjusted through a prior period adjustment due to materiality. The amortization expense for 2013 was \$11,510.

**Operating Revenues and Expenses**

The reporting of the Hospital and Abben's revenues and expenses distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

**Net Patient Service Revenue**

Net patient service revenue and clinic revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Interest and Investment Income**

Interest and investment income are recorded as nonoperating revenue. Investment income includes dividends, net rental income, and gains and losses, both realized and unrealized, on equity securities and real estate in the permanently endowed funds.

**Interest Expense**

Interest costs incurred on borrowed funds during the construction period of capital assets were capitalized as a component of the constructed assets. All of the borrowings from revenue bonds have been used to fund construction projects and equipment purchases.

**Charity Care and Community Benefits**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2014 and 2013, were \$305,841 and \$471,124, respectively. The costs of charity care are estimated to be \$117,000 and \$183,000 for 2014 and 2013, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.



SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Charity Care and Community Benefits - Continued**

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Home Health and Public Health Programs, Inpatient Mental Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Family Practice Clinics in Milford and Sioux Rapids, and Diabetic Education.

**Income Taxes**

The Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code of 1986.

Abben is not a tax paying entity for federal and state income tax purposes and all of its net income is attributable to the Hospital and is therefore tax exempt. As a limited liability company, Abben is subject to accounting standards that apply to pass-through entities, which prescribe a comprehensive model for how a company measures, recognizes, presents, and discloses in its financial statements uncertain tax positions. Based upon management's evaluation of the current facts and circumstances, no income tax liability or expense has been recorded in its financial statements.

**Reclassifications**

Certain amounts in the 2013 financial statements have been reclassified to conform to 2014's presentation.

**Management's Review**

In preparation of the financial statements, management has evaluated subsequent events through October 6, 2014, which is the date the financial statements were available to be issued.

**2. CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2014 and 2013 were entirely covered by FDIC or SIPC insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds. At June 30, 2014 and 2013, Abben had no uninsured bank balances.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies (mutual funds); certain joint investment trusts; investments in common stocks; and warrants or improvement certificates of a drainage district.

The Hospital's cash and investments at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents .....	\$31,990,872	\$32,287,802
Common stocks and mutual funds .....	11,532,062	8,825,527
Real estate and other .....	<u>1,597,217</u>	<u>1,600,944</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$45,120,151</u></b>	<b><u>\$42,714,273</u></b>

The cash and investments shown above are included in the Hospital's statements of financial position as follows:

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents .....	\$26,266,803	\$26,812,593
Investments - common stocks and mutual funds .....	<u>11,382,556</u>	<u>8,700,158</u>
Subtotal	<u>37,649,359</u>	<u>35,512,751</u>
Noncurrent cash and investments:		
Cash and cash equivalents .....	5,724,069	5,475,209
Investments - mutual fund .....	149,506	125,369
Real estate and other .....	<u>1,597,217</u>	<u>1,600,944</u>
Subtotal	<u>7,470,792</u>	<u>7,201,522</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$45,120,151</u></b>	<b><u>\$42,714,273</u></b>

Common stock and mutual fund investments and real estate held in the permanently endowed fund are carried at fair value. The net unrealized gains on investments at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Common stocks .....	\$ 1,012,142	\$ 1,270,463
Real estate .....	<u>1,320,894</u>	<u>1,320,894</u>
<b>Net unrealized gain</b>	<b><u>\$ 2,333,036</u></b>	<b><u>\$ 2,591,357</u></b>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND INVESTMENTS - Continued**

Investment income consisted of the following:

	<u>2014</u>	<u>2013</u>
Unrealized gains (losses) on common stocks and mutual funds .....	\$ (258,321)	\$ 133,850
Unrealized gains on real estate .....	-	212,000
Realized gains on common stocks and mutual funds .....	2,436,416	1,050,702
Dividend income .....	226,670	131,161
Rental income - net of expenses .....	<u>139,839</u>	<u>217,098</u>
 TOTAL INVESTMENT INCOME - NET	 <u>\$ 2,544,604</u>	 <u>\$ 1,744,811</u>

In accordance with its investment policy, the Hospital manages its exposure to declines in fair values by owning investments with various maturities. These investments include fixed money market accounts, certificates of deposit, and equity securities. The Hospital's philosophy for investing funds allows for fluctuation in yearly returns without putting the Hospital's ability to meet current expenditures at risk.

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

**3. NET PATIENT SERVICE REVENUE**

As a provider of health care services, the Hospital and Abben have agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 92 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2014 and 2013 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition of the Hospital and Abben in future years.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**3. NET PATIENT SERVICE REVENUE - Continued**

The following summarizes the differences between the Hospital's and Abben's gross patient service revenue determined at established rates and net patient service revenue:

	Hospital	
	<u>2014</u>	<u>2013</u>
Gross patient service revenue - at established rates ....	<u>\$154,840,311</u>	<u>\$143,668,788</u>
Adjustments:		
Medicare program .....	58,430,290	48,279,427
Medicaid program .....	8,229,757	8,273,470
Blue Cross/Wellmark .....	18,065,563	16,991,510
Other payors .....	4,567,187	4,700,545
Charity care .....	305,842	471,124
Bad debts .....	<u>2,901,464</u>	<u>2,885,220</u>
Total Adjustments	<u>92,500,103</u>	<u>81,601,296</u>
Net Patient Service Revenue	<u>\$ 62,340,208</u>	<u>\$ 62,067,492</u>

	Abben	
	<u>2014</u>	<u>2013</u>
Gross patient service revenue - at established rates ....	<u>\$ 10,837,814</u>	<u>\$ 11,417,990</u>
Adjustments:		
Medicare program .....	5,077,995	5,758,252
Other payors .....	2,765,183	2,579,518
Charity care .....	5,742	85,103
Bad debts .....	<u>9,592</u>	<u>36,166</u>
Total Adjustments	<u>7,858,512</u>	<u>8,459,039</u>
Net Patient Service Revenue	<u>\$ 2,979,302</u>	<u>\$ 2,958,951</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**4. PATIENT RECEIVABLES**

The Hospital and Abben grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013 was:

	Hospital		Abben	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Medicare .....	\$ 8,396,170	\$ 6,630,528	\$418,653	\$449,363
Medicaid program .....	1,695,045	992,366	6,424	14,313
Blue Cross/Wellmark .....	5,282,930	4,496,778	257,348	173,557
Other payors .....	5,399,550	5,712,723	85,416	141,148
Clinics .....	<u>157,443</u>	<u>220,291</u>	<u>-</u>	<u>-</u>
Total patient receivables	<u>20,931,138</u>	<u>18,052,686</u>	<u>767,841</u>	<u>778,381</u>
Less allowance for doubtful accounts .....	2,318,000	2,346,000	4,900	33,300
Less allowance for contractual agreements .....	<u>10,485,200</u>	<u>8,537,100</u>	<u>545,300</u>	<u>530,200</u>
Total allowances	<u>12,803,200</u>	<u>10,883,100</u>	<u>550,200</u>	<u>563,500</u>
Patient Receivables	<u>\$ 8,127,938</u>	<u>\$ 7,169,586</u>	<u>\$217,641</u>	<u>\$214,881</u>

SPENCER MUNICIPAL HOSPITAL AND  
ABBEY CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**5. CAPITAL ASSETS**

A summary of the Hospital's changes in capital assets for 2014 and 2013 is as follows:

	Year Ended June 30, 2014			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 2,430,601	\$ 30,146	\$ -	\$ 2,460,747
Construction in progress .....	3,258,989	5,481,261	(8,605,976)	134,274
Total capital assets not being depreciated	<u>5,689,590</u>	<u>5,511,407</u>	<u>(8,605,976)</u>	<u>2,595,021</u>
Other capital assets:				
Land improvements .....	1,845,429	-	(33,169)	1,812,260
Buildings .....	48,433,950	395,938	3,932,892	52,762,780
Fixed equipment .....	10,152,110	27,880	508,886	10,688,876
Major moveable equipment .....	45,275,858	1,230,279	(10,711,564)	35,794,573
Total other capital assets	<u>105,707,347</u>	<u>1,654,097</u>	<u>(6,302,955)</u>	<u>101,058,489</u>
Total capital assets	<u>111,396,937</u>	<u>7,165,504</u>	<u>(14,908,931)</u>	<u>103,653,510</u>
Less accumulated depreciation for:				
Land improvements .....	1,053,531	85,765	(33,170)	1,106,126
Buildings .....	19,250,160	1,672,423	(1,295,023)	19,627,560
Fixed equipment .....	7,241,819	446,691	(633,866)	7,054,644
Major moveable equipment .....	35,304,377	3,227,910	(12,800,308)	25,731,979
Total accumulated depreciation	<u>62,849,887</u>	<u>5,432,789</u>	<u>(14,762,367)</u>	<u>53,520,309</u>
CAPITAL ASSETS - NET	<u>\$ 48,547,050</u>	<u>\$ 1,732,715</u>	<u>\$ (146,564)</u>	<u>\$ 50,133,201</u>

	Year Ended June 30, 2013			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 2,430,601	\$ -	\$ -	\$ 2,430,601
Construction in progress .....	459,756	6,988,977	(4,189,744)	3,258,989
Total capital assets not being depreciated	<u>2,890,357</u>	<u>6,988,977</u>	<u>(4,189,744)</u>	<u>5,689,590</u>
Other capital assets:				
Land improvements .....	1,540,522	-	304,907	1,845,429
Buildings .....	48,050,118	44,237	339,595	48,433,950
Fixed equipment .....	8,611,331	20,354	1,520,425	10,152,110
Major moveable equipment .....	42,903,714	760,427	1,611,717	45,275,858
Total other capital assets	<u>101,105,685</u>	<u>825,018</u>	<u>3,776,644</u>	<u>105,707,347</u>
Total capital assets	<u>103,996,042</u>	<u>7,813,995</u>	<u>(413,100)</u>	<u>111,396,937</u>
Less accumulated depreciation for:				
Land improvements .....	964,519	89,012	-	1,053,531
Buildings .....	17,644,364	1,605,796	-	19,250,160
Fixed equipment .....	6,944,969	298,725	(1,875)	7,241,819
Major moveable equipment .....	32,293,373	3,274,816	(263,812)	35,304,377
Total accumulated depreciation	<u>57,847,225</u>	<u>5,268,349</u>	<u>(265,687)</u>	<u>62,849,887</u>
CAPITAL ASSETS - NET	<u>\$ 46,148,817</u>	<u>\$ 2,545,646</u>	<u>\$ (147,413)</u>	<u>\$ 48,547,050</u>

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**6. LONG-TERM DEBT**

The Hospital's long-term debt activity as of and for the years ended June 30, 2014 and 2013 is as follows:

	June 30, 2013	Payments	June 30, 2014	Due Within One Year
Hospital Revenue Bonds Series 2008 A (A)	\$ 4,749,435	\$ (781,427)	\$3,968,008	\$ 816,102
Hospital Revenue Bonds Series 2008 B (B)	<u>3,864,771</u>	<u>(623,694)</u>	<u>3,241,077</u>	<u>656,719</u>
	<u>\$ 8,614,206</u>	<u>\$(1,405,121)</u>	<u>\$7,209,085</u>	<u>\$1,472,821</u>

	June 30, 2012	Payments	June 30, 2013	Due Within One Year
Hospital Revenue Bonds Series 2008 A (A)	\$ 5,497,661	\$ (748,226)	\$4,749,435	\$ 781,427
Hospital Revenue Bonds Series 2008 B (B)	4,457,100	(592,329)	3,864,771	623,694
2007 Hospital Revenue Bonds (C) .....	<u>261,564</u>	<u>(261,564)</u>	<u>-</u>	<u>-</u>
	<u>\$10,216,325</u>	<u>\$(1,602,119)</u>	<u>\$8,614,206</u>	<u>\$1,405,121</u>

- (A) The Series 2008A bonds are payable in monthly principal and interest payments of \$81,049 at a fixed interest rate of 4.29% through December 2018.
- (B) The Series 2008B bonds are payable in monthly principal and interest payments of \$67,410 at a fixed interest rate of 5.10% through December 2018.
- (C) The 2007 revenue bonds were payable in monthly principal and interest payments of \$48,668 at a fixed interest rate of 3.8% and matured in January 2013.

The maturities and payment components of the Hospital's long-term debt are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$1,472,821	\$308,689	\$1,781,510
2016	1,543,192	238,318	1,781,510
2017	1,618,215	163,295	1,781,510
2018	1,696,266	85,244	1,781,510
2019	<u>878,591</u>	<u>12,183</u>	<u>890,774</u>
TOTAL	<u>\$7,209,085</u>	<u>\$807,729</u>	<u>\$8,016,814</u>

The revenue bonds were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from the revenues of the Hospital and do not constitute a liability or obligation of the City of Spencer. The bond proceeds have been used to finance building additions, building improvements, and purchase medical equipment.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**6. LONG-TERM DEBT - Continued**

The Hospital has pledged future revenues, net of defined expenses, to repay the bonds. The net pledged revenues, as defined in the bond document, and the principal and interest requirements for the Hospital's long-term debt are as follows:

	<u>2014</u>	<u>2013</u>
Net pledged revenues .....	<u>\$ 9,072,229</u>	<u>\$ 8,308,955</u>
Principal and interest requirements .....	<u>\$ 1,781,510</u>	<u>\$ 1,781,510</u>

**7. RETIREMENT PLAN**

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the Hospital is required to contribute 8.93% of annual covered payroll for 2014. For 2013 and 2012, the member contribution rates were 5.78% and 5.38%, and the Hospital contribution rates were 8.67% and 8.07%, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for 2014, 2013, and 2012 were \$1,934,932, \$1,958,985, and \$1,759,365, respectively, equal to the required contributions for each year.

**8. OTHER POST EMPLOYMENT BENEFITS**

Plan Description - In accordance with state law, the Hospital operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 461 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit (OPEB) liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.



SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**8. OTHER POST EMPLOYMENT BENEFITS - Continued**

Annual OPEB Cost and Net OPEB Obligation - The Hospital's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC .....	\$ 97,311
Interest on net OPEB obligation .....	13,040
Adjustment to annual required contribution .....	<u>(17,790)</u>
Annual OPEB cost .....	92,561
(Contributions made) claims paid .....	<u>(53,174)</u>
Increase in net OPEB obligation .....	39,387
Net OPEB obligation - beginning of year .....	<u>289,782</u>
 Net OPEB obligation - end of year .....	 <u>\$329,169</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the Hospital had actual contributions in excess of claims of \$53,174. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Fiscal Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2012	\$ 83,820	60%	\$190,438
2013	83,276	(19)%	289,782
2014	92,561	57%	329,169

Funding Status and Funding Progress - As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,141,505 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,141,505. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$21,168,000, and the ratio of the UAAL to the covered payroll was 5.4%. As of June 30, 2014 and 2013, there were no trust fund assets.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**8. OTHER POSTEMPLOYMENT BENEFITS - Continued**

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2013 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate started at 8%. The ultimate medical trend rate is 5%. The Hospital's trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$1,124 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**9. RISK MANAGEMENT**

The Hospital and Abben are exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. RISK MANAGEMENT - Continued**

The Hospital is self-insured for the following types of risk exposures:

**Health Benefits**

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$70,000 per individual and an aggregate stop loss amount of approximately \$6.0 million. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$378,876 and \$479,183 at June 30, 2014 and 2013, respectively, and are included in other current liabilities.

**Unemployment Compensation**

The Hospital is also self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

**10. RELATED PARTY TRANSACTIONS**

**Spencer Regional Healthcare Foundation**

The Spencer Regional Healthcare Foundation (Foundation) is a tax-exempt non-profit organization established to solicit contributions for qualifying health care facilities within a 20-mile radius of Spencer, Iowa. The Foundation is governed by an independent board, but it does include a minority number of members from the Hospital board; accordingly, the Hospital and the Foundation are considered related parties. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB standards. The Foundation made charitable contributions to the Hospital in the amount of \$68,059 and \$516,065 during 2014 and 2013, respectively.

**Abben Cancer Center, LLC**

The Hospital has entered into various agreements with Abben whereby the Hospital will provide management and operating services and lease a building and related equipment to Abben. The agreements include defined methodologies to calculate the rates and are cancelable by either party 90 days prior to the anniversary date of the agreements. The following summarizes the transactions with Abben:

	<u>2014</u>	<u>2013</u>
Personnel service fees for benefits and expenses .....	\$ 185,554	\$ 186,874
Leased employees' salaries .....	\$ 426,694	\$ 416,311
Building and equipment rental income .....	\$ 718,439	\$ 607,602

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RELATED PARTY TRANSACTIONS - Continued**

**Abben Cancer Center, LLC - Continued**

At June 30, 2014 and 2013, the Hospital's receivable from Abben was \$131,571 and \$131,612, respectively, which is included in other receivables. The balance consists of the above fees and cash advances for direct operating expenses less cash repayments.

**Board of Trustees**

The Hospital has depository accounts at local financial institutions who are affiliated with two Hospital trustees. The Hospital earned interest income of \$9,768 and \$9,668 in 2014 and 2013, respectively, on accounts held at these financial institutions.

The Hospital incurred investment management consulting fees of \$7,750 in 2014 from a company affiliated with a Hospital trustee.

The Hospital purchased supplies of \$4,309 and \$1,838 from a company owned in part by a Hospital trustee in 2014 and 2013, respectively.

The Hospital incurred farm management fees of \$5,636 and \$6,473 from a company owned in part by a Hospital trustee in 2014 and 2013, respectively.

**11. OPERATING LEASES**

The Hospital has entered into noncancelable operating lease agreements involving three medical clinics. The Hospital has exercised its renewal options which have extended the leases to various dates through fiscal year 2020. The rental expense for 2014 and 2013 was \$557,283 and \$436,152, respectively.

The following is a schedule of future minimum rental payments to be made:

<u>Year Ending June 30.</u>	<u>Amount</u>
2015	\$ 617,170
2016	624,298
2017	624,298
2018	611,748
2019	551,531
2020	<u>91,200</u>
<b>TOTAL</b>	<b><u>\$3,120,245</u></b>

The Hospital subleases one of the above clinics and leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The terms of the leases expire at various dates through fiscal year 2020 and have optional renewal clauses with annual rental increase provisions to recover increased expenses. The rental income under the agreements for 2014 and 2013 was \$726,165 and \$630,383, respectively, and is included in investment income.

SPENCER MUNICIPAL HOSPITAL AND  
 ABBEN CANCER CENTER, LLC  
 NOTES TO FINANCIAL STATEMENTS - Continued

**11. OPERATING LEASES - Continued**

The following is a schedule of future minimum rental payments to be received, including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 795,732
2016	794,048
2017	750,643
2018	443,714
2019	438,971
2020	<u>72,898</u>
TOTAL	<u>\$3,296,006</u>

The cost and accumulated depreciation of the leased property, including the property leased to Abben are as follows:

	<u>2014</u>	<u>2013</u>
Medical office buildings .....	\$ 3,864,496	\$ 3,738,507
Medical clinic equipment .....	273,782	253,537
Abben building .....	2,864,695	2,735,973
Abben equipment .....	4,052,408	4,703,855
Residential property .....	<u>346,688</u>	<u>-</u>
Total property and equipment	11,402,069	11,431,872
Less accumulated depreciation .....	<u>5,273,890</u>	<u>5,159,716</u>
Net property and equipment	<u>\$ 6,128,179</u>	<u>\$ 6,272,156</u>

**12. COMMITMENTS**

The Hospital has committed to construct or purchase various capital improvement projects totaling approximately \$4,800,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other various agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. As of June 30, 2014, the total amount expected to be paid on these commitments is approximately \$3,100,000 with the majority to be paid in 2015.

SPENCER MUNICIPAL HOSPITAL AND  
ABBEN CANCER CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS - Continued

**13. PROSPECTIVE ACCOUNTING CHANGE**

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the statement of net position is expected to include a significant liability for the Hospital's proportionate share of the employee pension plan.

**SPENCER MUNICIPAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

SPENCER MUNICIPAL HOSPITAL  
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted <u>Amount</u>	<u>Actual</u>	Budget to Actual <u>Variance</u>
Operating revenues .....	\$72,174,711	\$65,755,224	\$ (6,419,487)
Operating expenditures .....	<u>68,234,261</u>	<u>61,933,610</u>	<u>6,300,651</u>
Operating income	3,940,450	3,821,614	(118,836)
Other nonoperating changes in net position .....	<u>577,290</u>	<u>2,389,396</u>	<u>1,812,106</u>
Changes in Net Position	<u>\$ 4,517,740</u>	<u>\$ 6,211,010</u>	<u>\$ 1,693,270</u>

## NOTES

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

The Hospital Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For 2014, the Hospital's expenditures did not exceed the amount budgeted.



SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2011	July 1, 2009	-	\$ 662,439	\$ 662,439	0%	\$17,710,000	3.7%
2012	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$18,840,000	4.1%
2013	July 1, 2011	-	\$ 764,554	\$ 764,554	0%	\$19,159,000	4.0%
2014	July 1, 2013	-	\$1,141,505	\$1,141,505	0%	\$21,168,000	5.4%

See Note 8 in the accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

**SPENCER MUNICIPAL HOSPITAL  
SUPPLEMENTAL INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICE:</b>						
Medical and surgery.....	\$ 5,957,361	\$ 903,883	\$ 6,801	\$ -	\$ 6,868,045	\$ 7,155,968
Mental health.....	1,677,051	49,731	-	-	1,726,782	2,117,251
Nursery.....	493,826	-	-	-	493,826	506,167
Intensive care.....	1,252,492	43,546	-	-	1,296,038	1,122,543
Skilled care.....	-	-	344,995	-	344,995	409,060
<b>TOTAL DAILY PATIENT SERVICES</b>	<b>9,380,730</b>	<b>997,160</b>	<b>351,796</b>	<b>-</b>	<b>10,729,686</b>	<b>11,310,989</b>
<b>OTHER NURSING SERVICES:</b>						
Same day surgery.....	13,379	2,743,524	811	-	2,757,714	2,281,838
Intravenous therapy.....	602,030	1,188,579	20,086	-	1,810,695	1,659,837
Delivery and labor rooms.....	838,582	540,608	-	-	1,379,190	1,433,584
Operating rooms.....	6,142,725	27,262,609	35,087	-	33,440,421	31,308,149
Post anesthesia care unit.....	662,645	2,261,243	7,473	-	2,931,361	3,004,873
Emergency service.....	1,408,152	7,240,092	230	-	8,648,474	8,301,961
Medical supplies.....	12,074,916	4,875,019	9,710	1,274	16,960,919	19,145,834
Medical oncology.....	33,681	3,813,486	104	-	3,847,271	2,069,475
<b>TOTAL OTHER NURSING SERVICES</b>	<b>21,776,110</b>	<b>49,925,160</b>	<b>73,501</b>	<b>1,274</b>	<b>71,776,045</b>	<b>69,205,551</b>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Respiratory therapy.....	775,803	150,368	43,300	-	969,471	939,303
Ambulance.....	-	1,870,065	-	-	1,870,065	1,764,811
Laboratory.....	3,026,732	5,875,258	65,095	-	8,967,085	7,176,825
Blood bank.....	198,692	174,314	4,374	-	377,380	335,200
Electrocardiology.....	463,759	1,044,319	5,837	-	1,513,915	1,327,653
Electroencephalography.....	1,574	16,846	-	-	18,420	9,745
Radiology.....	834,161	4,508,396	13,775	-	5,356,332	5,476,019
Ultrasound.....	151,382	2,179,239	2,832	-	2,333,453	2,172,485
Stereotactic biopsy.....	143	316,234	-	-	316,377	347,889

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE - Continued  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Home Health</u>	<u>Total</u>	<u>Total</u>
OTHER PROFESSIONAL SERVICES-						
Continued:						
CT scan.....	\$ 990,790	\$ 7,504,154	\$ 15,956	\$ -	\$ 8,510,900	\$ 8,019,256
MRI.....	187,606	2,604,941	-	-	2,792,547	2,354,218
Nuclear medicine.....	30,570	929,668	-	-	960,238	1,066,400
Radiation oncology.....	25,912	-	34,176	-	60,088	49,071
Pharmacy.....	2,471,623	11,284,200	227,374	-	13,983,197	12,356,639
Therapy pool.....	-	162,278	-	-	162,278	146,400
Anesthesiology.....	555,054	1,667,629	3,311	-	2,225,994	2,176,712
Physical therapy.....	494,131	1,618,733	43,101	50,926	2,206,891	2,006,244
Speech therapy.....	21,896	365,087	3,682	-	390,665	355,426
Enterostomal service.....	54,807	438,163	16,458	-	509,428	379,138
Occupational therapy.....	324,044	489,247	31,244	11,373	855,908	857,062
Pulmonary function testing.....	479	168,859	-	-	169,338	170,745
Sleep study.....	5,085	614,404	-	-	619,489	611,028
Pulmonary rehab.....	-	69,378	-	-	69,378	66,004
Cardiac rehab.....	-	236,206	-	-	236,206	216,922
Dialysis - Spencer.....	-	4,560,004	-	-	4,560,004	3,782,011
Dialysis - Spirit Lake.....	-	9,713,005	-	-	9,713,005	5,762,377
Home health:						
Registered nurse care.....	-	-	-	515,247	515,247	574,734
Aides care.....	-	-	-	421,092	421,092	503,543
County assistance.....	-	-	-	146,667	146,667	100,000
Other care.....	-	-	-	1,503,522	1,503,522	2,048,388
TOTAL OTHER PROFESSIONAL SERVICES	10,614,243	58,560,995	510,515	2,648,827	72,334,580	63,152,248
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 41,771,083	\$ 109,483,315	\$ 935,812	\$ 2,650,101	\$ 154,840,311	\$ 143,668,788

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
NET PATIENT SERVICE REVENUE  
AND OTHER OPERATING REVENUES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 154,840,311	\$ 143,668,788
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	58,430,290	48,279,427
Medicaid program.....	8,229,757	8,273,470
Blue Cross / Wellmark.....	18,065,563	16,991,510
Other payors.....	4,567,187	4,700,545
Charity care.....	305,842	471,124
Bad debts.....	2,901,464	2,885,220
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	<u>92,500,103</u>	<u>81,601,296</u>
NET PATIENT SERVICE REVENUE	<u>\$ 62,340,208</u>	<u>\$ 62,067,492</u>
OTHER OPERATING REVENUES:		
Abben fees:		
Personnel services.....	\$ 185,554	\$ 186,874
Building and equipment rental.....	718,439	607,602
Ag health and safety clinic.....	43,574	77,910
Athletic enhancement.....	94,835	97,359
Auxiliary income.....	235	15,666
Cafeteria sales.....	328,904	337,169
Diagnostic imaging storage.....	32,529	36,247
Education programs.....	132,963	126,182
Employee health.....	3,352	6,067
Gift shop.....	65,391	67,895
Home medical equipment co. earnings (losses).....	(22,392)	(32,397)
Housekeeping revenue.....	28,371	28,353
Immunizations .....	70,720	57,318
Laboratory client billing.....	24,647	28,978
Medical record transcripts.....	20,767	26,618
Miscellaneous.....	35,229	42,692
Outreach services:		
Enterostomal therapy.....	80,166	89,027
Speech therapy.....	35,701	29,576
Occupational therapy.....	37,608	40,053
Physical therapy.....	116,049	142,522
Planet heart and stroke screening.....	32,537	44,122
Purchase discounts.....	5,582	6,379
Salary reimbursements:		
Sports medicine.....	115,333	39,361
Other.....	107,980	102,238
Steam sold.....	6,707	3,749
Technology consulting.....	11,000	-
Wellness screenings.....	27,446	23,827
TOTAL OTHER OPERATING REVENUES	<u>\$ 2,339,227</u>	<u>\$ 2,231,387</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Salaries		Professional Services		Supplies and Other Expenses	
	2014	2013	2014	2013	2014	2013
Clinical resources.....	\$ 345,440	\$ 354,380	\$ -	\$ -	\$ 534	\$ 856
Medical and surgery.....	1,918,712	2,011,030	21,358	12,800	191,464	212,317
Obstetrics.....	585,568	629,243	748	2,739	84,449	68,076
Mental health.....	804,971	820,957	22,672	3,372	15,363	25,278
Intensive care.....	496,199	459,231	84,000	84,329	31,381	27,540
Intravenous therapy.....	-	-	-	-	36,563	31,409
Operating room.....	1,083,644	1,111,224	520,026	548,035	1,155,450	1,249,979
Post anesthesia care unit.....	258,182	308,463	-	-	93,003	98,485
Emergency service.....	841,737	862,100	1,601,946	1,508,703	84,940	95,029
Central sterilization.....	101,927	119,301	4,384	7,164	177,507	190,864
Service aide.....	7,677	21,086	-	-	-	-
Same day surgery.....	957,589	992,728	10,034	575	95,174	75,061
Home health.....	733,864	812,812	11,212	11,489	46,840	51,497
Hospice.....	172,016	183,688	155,687	172,902	20,779	21,022
Enterostomal service.....	120,486	123,989	-	-	23,329	24,595
Dialysis - Spencer.....	382,758	429,691	92,050	97,132	96,811	110,122
Dialysis - Spirit Lake.....	563,318	417,500	200,385	182,513	342,179	276,220
Partial hospitalization.....	-	-	-	-	-	28
Medical oncology.....	419,417	359,169	613,099	367,528	42,551	29,218
Respiratory therapy.....	245,402	262,452	1,253	1,349	30,000	26,954
Laboratory.....	657,759	677,596	481,079	401,743	404,320	425,559
Blood bank.....	-	-	-	-	216,823	221,737
Electrocardiology.....	73,072	68,415	78,953	76,861	-	-

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Salaries		Professional Services		Supplies and Other Expenses	
	2014	2013	2014	2013	2014	2013
Radiology.....	\$ 538,490	\$ 574,406	\$ 66,513	\$ 75,347	\$ 407,820	\$ 407,158
Ultrasound.....	179,962	177,921	1,409	4,269	39,050	32,552
MRI.....	67,060	65,246	-	-	150,563	172,586
Athletic enhancement.....	80,116	82,696	313	380	8,066	3,218
Nuclear medicine.....	92,253	92,098	-	-	196,887	212,611
Pharmacy.....	926,605	951,023	143,038	125,584	80,451	80,937
Anesthesiology.....	53,645	56,679	-	1,001	214,590	217,759
Physical therapy.....	691,623	643,391	204	880	30,520	36,565
Ambulance.....	583,878	603,548	-	-	62,780	96,480
Social services.....	91,038	90,147	-	-	107	198
Cardiac rehabilitation.....	127,483	127,039	-	-	9,023	5,943
Medical records.....	533,532	609,032	84,553	75,754	69,250	42,976
CT scan.....	182,281	184,324	73,441	104,177	283,825	264,031
Occupational therapy.....	193,712	302,598	88,497	-	19,519	16,471
Infection control.....	68,358	63,317	-	-	938	715
Speech therapy.....	104,229	124,029	115	-	7,110	10,117
AG health and safety clinic.....	23,667	36,225	-	740	45,782	65,012
Sleep studies.....	-	-	151,383	150,450	95	3,337
Sports medicine.....	17,995	17,815	387,600	387,600	94,983	83,640

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Salaries		Professional Services		Supplies and Other Expenses	
	2014	2013	2014	2013	2014	2013
Therapy pool.....	\$ -	\$ -	\$ -	\$ -	\$ 4,789	\$ 3,114
Plant.....	521,134	554,290	-	-	322,755	348,412
Utilities.....	-	-	-	-	885,532	772,464
Housekeeping.....	559,595	590,697	127,485	117,042	125,137	123,021
Laundry.....	21,233	20,059	175,981	179,222	54,610	57,596
Nutrition services.....	546,154	710,561	272,147	305,704	473,052	570,725
Valet.....	62,512	66,543	2,274	2,403	2,682	2,735
General accounting.....	310,198	319,435	8,407	8,035	22,154	19,880
Human resources.....	267,737	272,738	19,923	33,649	47,809	55,892
Patient accounts.....	765,150	767,777	233,335	223,284	78,003	77,221
Information systems.....	533,965	560,109	51,536	94,350	724,898	730,261
Administration.....	1,219,727	1,245,604	764,981	454,223	714,613	910,579
Safety.....	66,363	71,006	-	-	689	1,577
Materials management.....	150,603	160,091	23,350	23,850	35,835	45,992
Communications.....	-	-	4,944	4,490	74,332	79,065
Central supply.....	83,214	83,173	-	-	4,981,758	5,859,163
Printing and duplicating.....	9,489	14,405	-	-	140,138	158,432
Insurance.....	-	-	-	-	270,348	244,721
Staff development.....	210,055	214,367	25,077	57,974	41,235	39,371
Medical care evaluation.....	418,825	398,209	191,779	207,493	18,789	19,945
PET/CT scan.....	-	-	169,825	169,465	2,092	1,399
Women's health.....	34,724	35,682	-	-	1,701	2,450
SHAPE.....	70,490	68,042	-	-	1,268	4,135
Gift Shop.....	-	-	-	-	68,805	70,054
<b>TOTAL</b>	<b>\$ 21,176,833</b>	<b>\$ 21,979,377</b>	<b>\$ 6,966,996</b>	<b>\$ 6,286,600</b>	<b>\$ 14,003,843</b>	<b>\$ 15,212,356</b>

See Independent Auditors' Report.



SPENCER MUNICIPAL HOSPITAL  
PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

## PATIENT RECEIVABLES ANALYSIS OF AGING:

	2014		2013	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 9,290,935	44.39%	\$ 7,470,137	41.38%
31 - 60.....	3,025,684	14.46%	1,925,173	10.67%
61 - 90.....	1,064,088	5.08%	1,282,737	7.11%
91 - 120.....	604,107	2.89%	1,033,792	5.73%
Over 120.....	2,626,660	12.55%	2,349,801	13.02%
Clinic receivables.....	157,443	0.75%	220,291	1.22%
TOTAL RECEIVABLES BILLED	16,768,917	80.11%	14,281,931	79.11%
In Hospital.....	4,162,221	19.89%	3,770,755	20.89%
TOTAL PATIENT RECEIVABLES	20,931,138	100.00%	18,052,686	100.00%
Allowance for doubtful accounts.....	(2,318,000)		(2,346,000)	
Allowance for contractual adjustments.....	(10,415,000)		(8,461,000)	
Clinic allowance for contractual adjustments ...	(70,200)		(76,100)	
TOTAL ALLOWANCES	(12,803,200)		(10,883,100)	
PATIENT RECEIVABLES - NET	<u>\$ 8,127,938</u>		<u>\$ 7,169,586</u>	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2014</u>	<u>2013</u>
BALANCE - BEGINNING OF YEAR	\$ 2,346,000	\$ 2,346,000
Provision charged to expense.....	2,901,464	2,885,220
Accounts written off.....	(3,839,327)	(3,793,419)
Recoveries of accounts previously written off.....	909,863	908,199
BALANCE - END OF YEAR	<u>\$ 2,318,000</u>	<u>\$ 2,346,000</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVENTORIES AND PREPAID EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
INVENTORIES:		
Store room.....	\$ 409,652	\$ 381,821
Nutrition services.....	22,068	23,286
Laboratory.....	86,543	85,773
Pharmacy.....	673,174	696,077
Radiology.....	14,713	15,856
Surgery.....	1,715,315	1,514,932
Other departments.....	<u>40,479</u>	<u>60,264</u>
TOTALS	<u>\$ 2,961,944</u>	<u>\$ 2,778,009</u>
PREPAID EXPENSES:		
Service contracts and other.....	\$ 1,041,045	\$ 861,027
Association dues.....	38,324	38,852
Insurance.....	<u>16,050</u>	<u>36,145</u>
TOTALS	<u>\$ 1,095,419</u>	<u>\$ 936,024</u>

See Independent Auditors' Report.

SPENCER MUNICIPAL HOSPITAL  
INVESTMENT TRANSACTIONS  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Balances Beginning of Year</u>	<u>Additions During the Year</u>	<u>Sales During the Year</u>	<u>Realized &amp; Unrealized Gains (Losses)</u>	<u>Balances End of Year</u>
Common stocks and mutual funds.....	\$ 8,825,527	\$ 10,833,302	\$ (10,304,862)	\$ 2,178,095	\$ 11,532,062
Real estate and other...	1,600,944		(3,727)		1,597,217
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$ 10,426,471</u>	<u>\$ 10,833,302</u>	<u>\$ (10,308,589)</u>	<u>\$ 2,178,095</u>	<u>\$ 13,129,279</u>

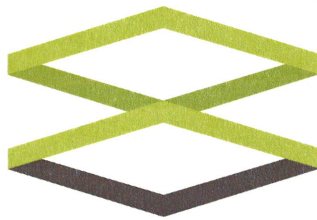
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**SPENCER MUNICIPAL HOSPITAL  
OTHER INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

SPENCER MUNICIPAL HOSPITAL  
COMPARATIVE STATISTICS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013  
UNAUDITED

	<u>2014</u>	<u>2013</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	1,970	2,134
Mental health unit.....	206	347
Swing bed and inn care.....	83	90
Newborns.....	<u>285</u>	<u>312</u>
 TOTAL	 <u><u>2,544</u></u>	 <u><u>2,883</u></u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	1,929	2,102
Mental health unit.....	203	351
Swing bed and inn care.....	89	96
Newborns.....	<u>285</u>	<u>314</u>
 TOTAL	 <u><u>2,506</u></u>	 <u><u>2,863</u></u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	6,626	7,365
Mental health unit.....	1,562	2,019
Swing bed and inn care.....	658	804
Newborns.....	<u>638</u>	<u>691</u>
 TOTAL	 <u><u>9,484</u></u>	 <u><u>10,879</u></u>
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.36	3.45
Mental health unit.....	7.58	5.82
Swing bed and inn care.....	7.93	8.93
Newborns.....	2.24	2.21
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	18.15	20.18
Mental health unit.....	4.28	5.53
Swing bed and inn care.....	1.80	2.20
Newborns.....	1.75	1.89
 Outpatient visits .....	 <u><u>116,756</u></u>	 <u><u>114,657</u></u>
 Licensed beds at end of year.....	 <u><u>99</u></u>	 <u><u>99</u></u>

See Independent Auditors' Report.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Board of Trustees of  
Spencer Municipal Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated October 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Staw & Co., LLP

October 6, 2014  
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014

**Part I: Findings Related to the Financial Statements**

None

**Part II: Other Findings Related to Required Statutory Reporting**

**II-A-14 Certified Budget**

For the year ended June 30, 2014, the Hospital's expenditures did not exceed the amount budgeted.

**II-B-14 Questionable Expenditures**

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

**II-C-14 Travel Expense**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**II-D-14 Business Transactions**

Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member Chairman of Northwest Bank and affiliates	Interest income from Northwest Bank	\$ 5,738
	Investment management consulting fees	7,750
Kris Van Berkum, Board member Co-owner JCL Solutions	Purchase of cleaning supplies	4,309
John Cotton, Board member Co-owner Cotton Grave Farm Management & Realty	Farm management fees	5,636
Co-owner Community State Bank	Interest income from Community State Bank	4,030

The transactions do not appear to represent a conflict of interest since the transactions were entered into through competitive bidding in accordance with Chapter 362.5(4); additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.



SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

**II-E-14     Board Minutes**

No transactions were found that we believe should have been approved in Board minutes but were not. The Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

**II-F-14     Deposits and Investments**

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.